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PICK-LOCK-SCHULTE

Chartered Accountants

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Edmonton, Alberta T6G 2R6

AUDITORS' REPORT

To the Shareholders of Redux Energy Corporation

REDUX ENERGY CORPORATION

Consolidated Financial Statements

For the years ended March 31, 1997 and 1996

We have audited the consolidated financial statements of Redux Energy Corporation for the years ended March 31, 1997 and 1996 and the related disclosures in respect of earnings and changes in financial position in the consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform our audit to provide reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

In our opinion, these consolidated financial statements present fairly, in all material aspects, the consolidated financial position of the corporation as at March 31, 1997 and 1996 and the consolidated results of its operations and the cash flows changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Calgary, Alberta
June 11, 1997

Pick Lock Schulte

CHARTERED ACCOUNTANTS

DICK COOK SCHULLI

Chartered Accountants

AUDITORS' REPORT

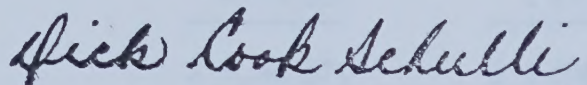
To the Shareholders of Redux Energy Corporation:

We have audited the consolidated balance sheets of Redux Energy Corporation as at March 31, 1997 and 1996 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion these consolidated financial statements present fairly, in all material respects, the consolidated financial positions of the corporation as at March 31, 1997 and 1996 and the consolidated results of its operations and the consolidated changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Calgary, Alberta
June 11, 1997



CHARTERED ACCOUNTANTS

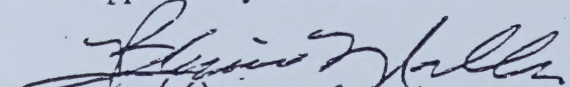
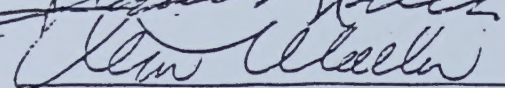
REDUX ENERGY CORPORATION

Consolidated Balance Sheet

As at March 31, 1997 and 1996

	<u>1997</u>	<u>1996</u>
Assets		
Current		
Cash	\$ 25,423	\$ 15,226
Accounts receivable	400,834	269,031
Inventory	452,118	358,069
Prepaid expenses	73,627	4,566
	952,002	646,892
Deferred costs - Note 2	175,096	226,129
Property, plant and equipment - Note 3	3,175,237	1,084,373
Goodwill - Note 4	866,936	738,974
	\$ 5,169,271	\$ 2,696,368
Liabilities		
Current		
Accounts and note payable - Note 5	693,673	569,679
Deferred income - Note 6	252,311	-
Due to minority owner - Note 7	-	116,576
Current portion of long-term debt - Note 8	20,945	123,746
	966,929	810,001
Long-term debt - Note 8	31,990	214,765
	998,919	1,024,766
Shareholders' Equity		
Share capital - Note 9	3,630,940	1,474,111
Retained earnings	539,412	197,491
	4,170,352	1,671,602
	\$ 5,169,271	\$ 2,696,368

Approved by the Board:

 , Director
 , Director

See accompanying notes

REDUX ENERGY CORPORATION

Consolidated Statement of Changes in Financial Position

For the years ended March 31, 1997 and 1996

	<u>1997</u>	<u>1996</u>
Source (use) of cash:		
Operating activities		
Net earnings	\$ 341,921	\$ 115,984
Add items not affecting cash:		
Depletion and amortization - resource assets	17,961	23,628
- manufacturing assets and goodwill	132,254	83,789
- deferred costs	51,033	-
Gain on sale of resource properties	-	(105,550)
	<u>543,169</u>	<u>117,851</u>
Net change in non-cash working capital	<u>(35,184)</u>	<u>54,065</u>
	<u>507,985</u>	<u>171,916</u>
Financing activities		
Assumption of subsidiary's long-term debt	-	413,311
Proceeds on issuance of common shares, net	2,156,829	861,664
Proceeds from long-term debt	50,355	50,000
Repayment of long-term debt	(335,931)	(162,588)
	<u>1,871,253</u>	<u>1,162,387</u>
Investing activities		
Acquisition of property, plant and equipment	(2,203,841)	(392,844)
Proceeds on sale of property, plant and equipment	9,800	122,205
Cost of acquiring subsidiary	(175,000)	(692,249)
Deferred costs incurred	-	(252,809)
	<u>(2,369,041)</u>	<u>(1,215,697)</u>
Increase in cash	<u>10,197</u>	<u>118,606</u>
Cash (bank indebtedness), beginning of year	<u>15,226</u>	<u>(103,380)</u>
Cash, end of year	<u>\$ 25,423</u>	<u>\$ 15,226</u>

See accompanying notes

REDUX ENERGY CORPORATION

Notes to Consolidated Financial Statements

For the years ended March 31, 1997 and 1996

Note 1 - Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the results of operations of the corporation and its 100% owned subsidiaries. Details are as follows:

- Thermal Control Technologies Corp. (TCT-Canada); and
- Thermal Control Technologies Corp. (TCT-US).

TCT-US was acquired in stages. At April 1, 1995 the corporation owned 51% of TCT-US. An additional 34% was acquired during fiscal 1996 and the remaining 15% was acquired in September of 1996.

For accounting purposes 100% of the operation of TCT-US are included. No provision for an allocation to the minority interests is made as it was determined that the corporation was fully responsible for the losses of TCT-US during the period of less than 100% ownership.

(b) Property, plant and equipment

Resource assets

Oil and Gas Operations

The company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical costs, lease rentals on non-producing properties, and costs of drilling both productive and non-productive wells. Depletion of such costs, net of proceeds from minor disposals of property, and depreciation of production equipment and facilities is calculated on the unit-of-production method based upon estimated proven reserves. Costs of unproven properties are excluded from the depletion calculation until it is determined whether or not proven reserves are attributable to the properties.

The Company employs a ceiling test annually to determine the limitation on capitalized costs. Such costs are generally limited to the value of the future net revenues from estimated production of proved reserves based upon current prices and costs, and the cost of unproved properties. Future net revenues are calculated after deducting general and administration expenses, financing costs and income taxes.

Estimated future costs of restoring the Company's oil and gas properties are anticipated to be less than the disposal value of the equipment located on the well. Accordingly, a provision for site restoration has not been provided for as there is no provision for residual value for equipment in calculating depletion.

- Continued -

REDUX ENERGY CORPORATION

Notes to Consolidated Financial Statements

For the years ended March 31, 1997 and 1996

Note 1 - Significant Accounting Policies - Continued

(b) Property plant and equipment

Manufacturing assets

Manufacturing rights are amortized on a straight-line basis over twenty-five years effective with the start of production on October 1, 1995. Other manufacturing assets are amortized at rates of 4% to 30%, such rates designed to amortize the cost of these assets over their estimated useful lives.

(c) Deferred costs

The corporation has capitalized all pre-production costs associated with the development of a new business segment. Effective with the completion of the product and commencement of commercial production on October 1, 1995, these costs are being written-off on a straight-line basis over five years.

(d) Goodwill

Goodwill represents the excess of the consideration paid over the net value of the assets acquired in the acquisition of TCT-US. Amortization is provided for on a straight-line basis over twenty years.

(e) Inventory

Inventory is carried at the lower of cost and net realizable value.

(f) Foreign currency translation

Transactions in foreign currencies are translated at rates in effect on the dates of the transactions. Current assets and liabilities have been translated at the rates of exchange prevailing at the balance sheet dates. Gains or losses arising on translation are charged or credited to expense.

(g) Earnings per share

Basic earnings per share have been calculated on the weighted average number of shares outstanding during the year. Fully diluted earnings per share have not been disclosed because it is anti-dilutive.

(h) Revenue recognition

The corporation recognized revenues on contracts to manufacture special orders of product on a percentage of completion basis.

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REDUX ENERGY CORPORATION

Notes to Consolidated Financial Statements

For the years ended March 31, 1997 and 1996

Note 1 - Significant Accounting Policies - Continued

(i) Share capital

Share capital has been reduced by certain specific costs relating to issuing shares and direct internal administrative costs that management considered directly related to raising the share capital.

Note 2 - Deferred Costs

	<u>1997</u>	<u>1996</u>
Development costs incurred	\$ 252,809	\$ 252,809
Less accumulated amortization	<u>77,713</u>	<u>26,680</u>
	<u>\$ 175,096</u>	<u>\$ 226,129</u>

Note 3 - Property, Plant and Equipment

Property, plant and equipment consists of the following:

	<u>1997</u>		<u>1996</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Manufacturing assets			
Manufacturing equipment	\$2,500,642	\$ 112,370	\$2,388,272
Manufacturing rights	103,689	7,776	95,913
Other equipment	264,433	70,125	194,308
	<u>2,868,764</u>	<u>190,271</u>	<u>2,678,493</u>
Resource assets	663,119	166,375	496,744
	<u>\$3,531,883</u>	<u>\$ 356,646</u>	<u>\$3,175,237</u>

- Continued -

REDUX ENERGY CORPORATION

Notes to Consolidated Financial Statements

For the years ended March 31, 1997 and 1996

Note 4 - Goodwill

	<u>1997</u>	<u>1996</u>
Balance, beginning of year	\$ 765,787	\$ -
Cost of acquisition of TCT-US	<u>175,000</u>	<u>765,787</u>
	940,787	765,787
Accumulated amortization	<u>73,851</u>	<u>26,813</u>
	<u>\$ 866,936</u>	<u>\$ 738,974</u>

The acquisition of the remaining 15% of TCT-US in fiscal 1997 has been allocated entirely to goodwill as the Corporation has no identifiable net assets.

Note 5 - Accounts and Note Payable

Included in accounts payable is \$nil (1996 - \$73,341) due to a company controlled by two directors and shareholders of the corporation.

Note 6 - Deferred Income

During the year, TCT-US entered into an agreement to acquire manufacturing equipment for \$1,890,000 (\$1,350,000 US) in exchange for the delivery of 1818 charge air coolers. As at March 31, 1997, the corporation had received all the manufacturing equipment and delivered the balance of the charge air coolers in the first quarter of fiscal 1998. At March 31, 1997 the profit deferred on the equipment delivered in the first quarter of 1998 is as follows:

Sales price of product delivered subsequent to year end	\$ 545,513
Cost of manufacturing to be incurred	<u>293,202</u>
Deferred income realized in the first quarter of 1998	<u>\$ 252,311</u>

Note 7 - Due to Minority Owner

During the prior year, the minority owner of "TCT-US" agreed to advance sufficient funds to repay one of the subsidiary's bank loans. These advances were non-interest bearing and repayable on demand.

These funds were repaid in full upon acquisition of the remaining 15% of the shares of TCT-US.

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REDUX ENERGY CORPORATION

Notes to Consolidated Financial Statements

For the years ended March 31, 1997 and 1996

Note 8 - Long-Term Debt

	<u>1997</u>	<u>1996</u>
Redux Energy Corporation		
Non-interest bearing, unsecured note payable without specified terms of repayment and due to a company controlled by a director of the corporation.	\$ -	\$ 50,000
Finance contract repayable in aggregate monthly instalments of \$1,399 including interest at 8.9% per annum and secured by specified automobiles.	38,666	-
TCT-US		
Loan repayable in monthly instalments of \$1,220 including interest at 11% per annum.	-	11,607
Loan repayable in monthly instalments of \$4,069 including interest at 5.5% per annum and maturing on June 1, 2000.	-	213,474
Loan repayable in monthly instalments of \$2,277 including interest at 10.5% per annum.	-	43,180
Finance contract repayable in monthly instalments of \$638 including interest at 13.25%, secured by the automobile and maturing on January 15, 1999.	14,269	16,252
Capital lease secured by photocopier equipment.	-	3,998
	52,935	338,511
Portion due within one year	20,945	123,746
	<u>\$ 31,990</u>	<u>\$ 214,765</u>

In the year, the corporation repaid the majority of its TCT-US debt. The repayments included approximately \$6,600 (\$4,800 US) of interest.

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REDUX ENERGY CORPORATION

Notes to Consolidated Financial Statements

For the years ended March 31, 1997 and 1996

Note 9 - Share Capital

Authorized:

Unlimited number of:

Voting common shares

Non-voting preferred shares

	<u>Shares</u>	<u>Amount</u>
Voting Common Shares Issued:		
Balance, March 31, 1995	7,667,441	\$ 612,447
Issued on acquisition of an additional 34% TCT-US	636,083	277,758
Private placement	950,000	550,000
Warrants exercised	175,000	70,000
Share issuance costs	-	(36,094)
Balance, March 31, 1996	9,428,524	1,474,111
Directors' options	231,760	59,401
Private placement	200,000	332,000
Rights offering	1,604,754	2,005,942
Warrants exercised	103,011	139,065
Share issuance costs	-	(379,579)
Balance, March 31, 1997	11,568,049	\$3,630,940

Included in the costs of issuing shares are administrative expenses and salaries of \$106,874.

As at March 31, 1997, the corporation has the following warrants outstanding:

<u>Quantity</u>	<u>Price</u>	<u>Expiry Date</u>
525,000	\$ 0.40	January 28, 1998
125,000	\$ 1.75	March 27, 1998
699,366	\$ 1.35	August 27, 1997
100,000	\$ 2.20	April 19, 1998

In addition, the corporation has the following options outstanding at March 31, 1997:

<u>Quantity</u>	<u>Date Granted</u>	<u>Expiry Date</u>	<u>Price</u>
530,000	November 8, 1995	November 8, 2000	\$ 0.20

- Continued -

REDUX ENERGY CORPORATION
Notes to Consolidated Financial Statements

For the years ended March 31, 1997 and 1996

Note 10 - Related Party Transactions

The corporation paid management fees of \$129,163 (1996 - \$11,000) to a company controlled by two directors of the corporation.

Note 11 - Income Taxes

The corporation has the following non-capital losses available for carry forward against future taxable income.

TCT-US	\$	398,000
TCT-Canada		13,000
Redux Energy Corporation		365,000

Income taxes for the year of \$196,000 have been offset by utilizing losses from prior years for which no tax benefit has been recognized.

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REDUX ENERGY CORPORATION

Notes to Consolidated Financial Statements

For the years ended March 31, 1997 and 1996

Note 12 - Segmented Information

The corporation operates in two distinct business segments. The first is the sale of oil and gas reserves. The second is the manufacture and sale of charge-air coolers. The resource segment is carried on in Western Canada while the manufacturing operation is carried on principally in the United States. Information concerning these segments is as follows:

	<u>1997</u>	<u>1996</u>
Operations:		
Resource		
Oil and gas sales, net of royalties	\$ 202,286	\$ 198,384
Gain on sale of resource properties	-	105,550
	<u>202,286</u>	<u>303,934</u>
Expenses		
Production costs	65,054	126,172
General and administration	90,680	78,245
Depletion and amortization	17,961	23,628
	<u>173,695</u>	<u>228,045</u>
Net earnings	<u>\$ 28,591</u>	<u>\$ 75,889</u>
Manufacturing:		
Sales	\$ 1,739,702	\$ 401,387
Cost of sales	918,421	189,553
	<u>821,281</u>	<u>211,834</u>
Expenses		
Amortization:		
Property, plant and equipment	85,215	30,297
Deferred costs	51,033	26,680
Goodwill	47,039	26,812
General and administration	309,861	75,292
Interest on long-term debt	14,803	12,658
	<u>507,951</u>	<u>171,739</u>
Net earnings	<u>\$ 313,330</u>	<u>\$ 40,095</u>

- Continued -

REDUX ENERGY CORPORATION

Notes to Consolidated Financial Statements

For the years ended March 31, 1997 and 1996

Note 10 - Related Party Transactions

The corporation paid management fees of \$129,163 (1996 - \$11,000) to a company controlled by two directors of the corporation.

Note 11 - Income Taxes

The corporation has the following non-capital losses available for carry forward against future taxable income.

TCT-US	\$	398,000
TCT-Canada		13,000
Redux Energy Corporation		365,000

Income taxes for the year of \$196,000 have been offset by utilizing losses from prior years for which no tax benefit has been recognized.

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RENNER POWER & LIGHT CORPORATION

Report to the Board of Directors

For the year ended March 31, 1977 and 1976

Item 10 - Financial Performance

The corporation has reported for the years ended March 31, 1977 and 1976, the following financial performance:

Item 11 - Financial Data

The corporation has the following financial data for the years ended March 31, 1977 and 1976:

1977

1976

Renner Power & Light Corporation

Income tax for the year ended March 31, 1977 and 1976 has been reported for the corporation as follows: